

# 2005 URI Conference

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Auditor General

State of Rhode Island



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# A Look At Our Future

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## Long-Term Fiscal Outlook – Federal, State, and Local



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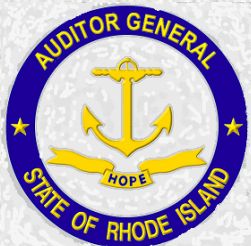
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# Poor Financial Condition

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- September 30, 2004
- 1 Trillion/ 8 Trillion
- Social Security Fund/ Medicare & Medicaid Funds
- 43 Trillion (That's right 12 zeros) and rising/ 155,000
- 48.8 Trillion (Net Worth) - 90% (Gates/Housing)
- Prescription Drugs – 8.1 Trillion
- Social Security Debate – Medicare/Medicaid harder to fix
- A public that does not take care of personal finances



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## Cross Generation Issue



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1. \$150,000
2. \$300,000
3. \$450,000
4. \$600,000

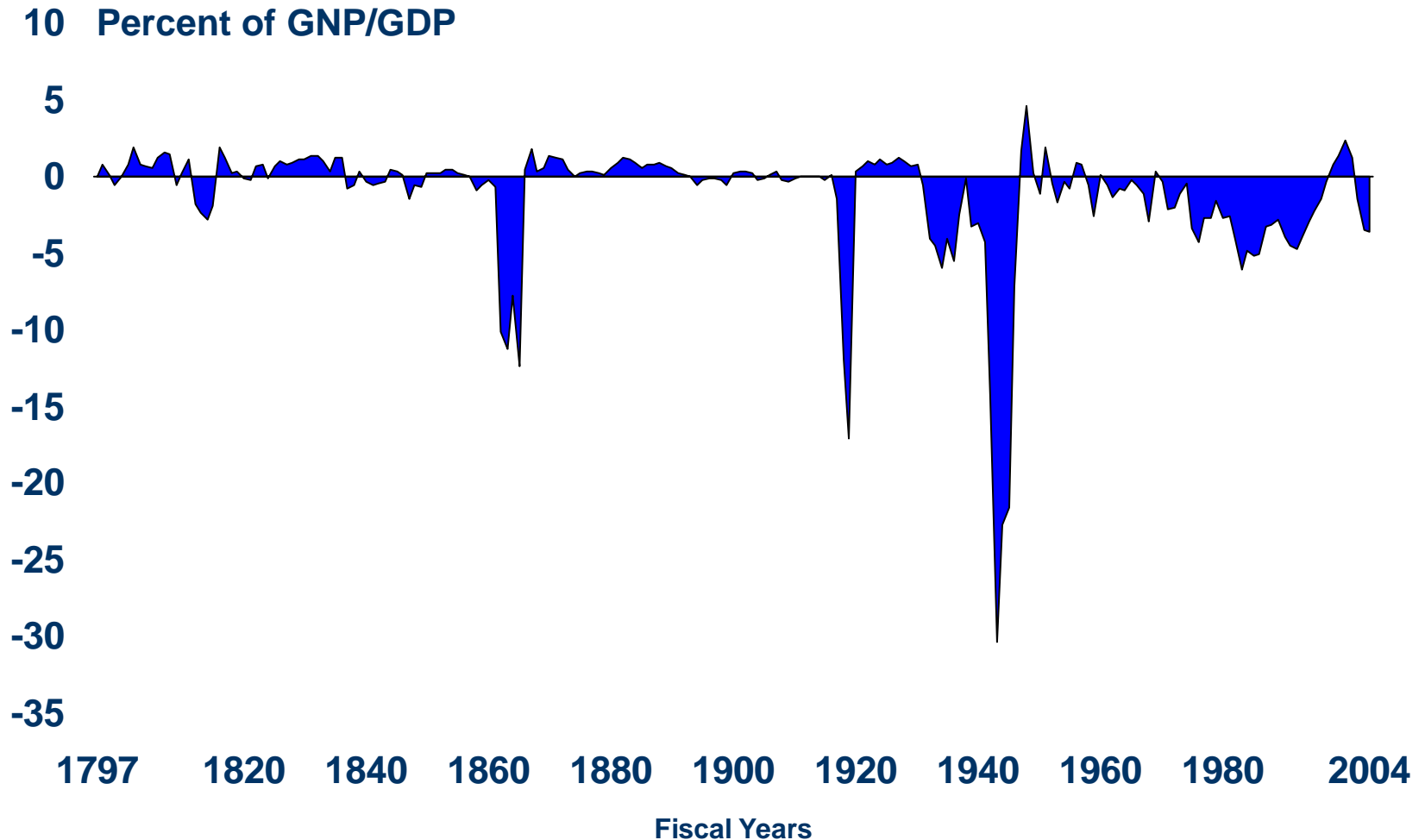


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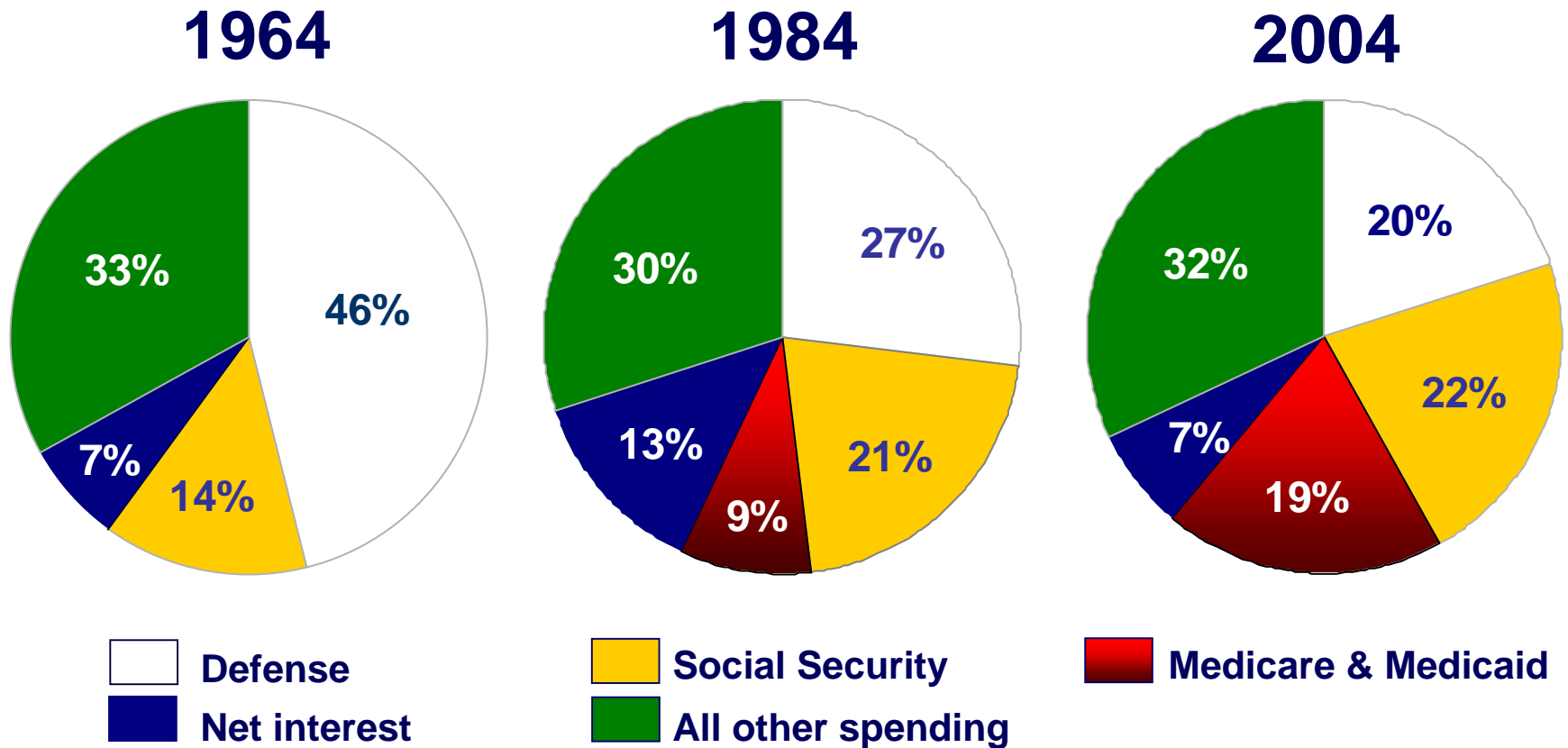


# Federal Surplus or Deficit as a Share of GDP (Fiscal Years 1797-2004)



Note: Data until 1929 are shown as a percent of gross national product (GNP); data from 1930 to present are shown as a percent of GDP.  
Source: Department of Commerce, Office of Management and Budget, and Congressional Budget Office.

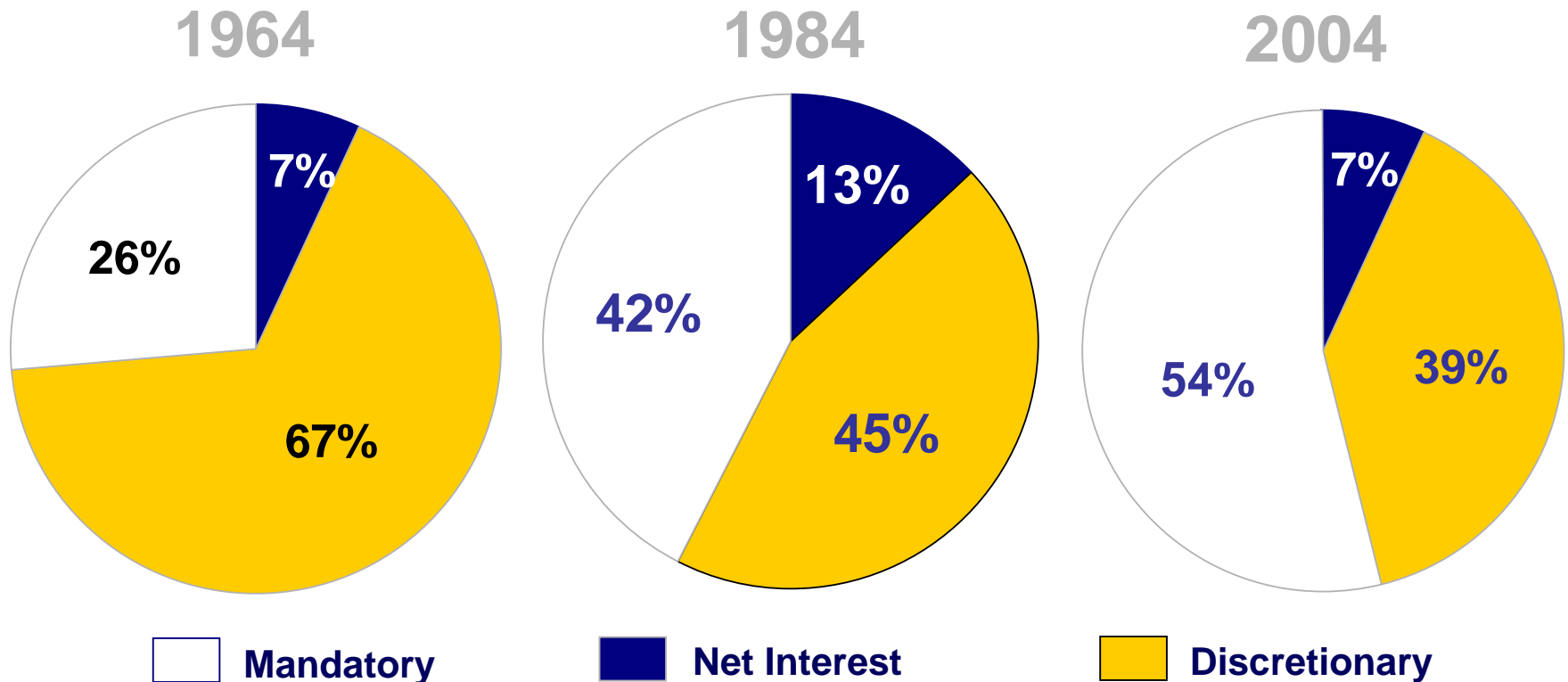
# Composition of Federal Spending



Source: Office of Management and Budget.



# Federal Spending for Mandatory and Discretionary Programs



Source: Office of Management and Budget.

# Fiscal Year 2004

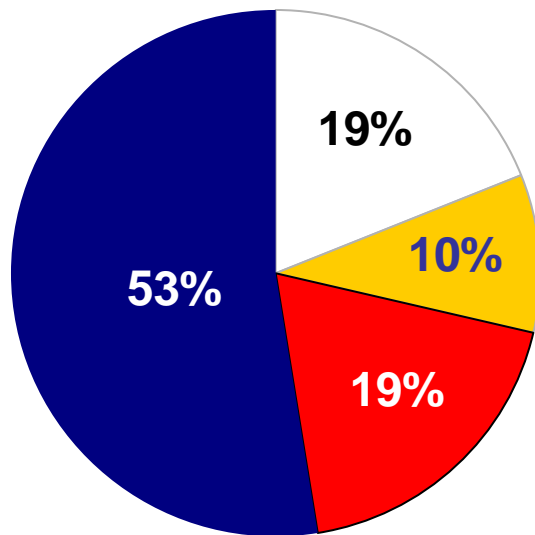
	\$ Billion	% of GDP
On-Budget Deficit	(567)	(4.9)
Off-Budget Surplus	155*	1.3
Unified Deficit		(3.6)

March 2005

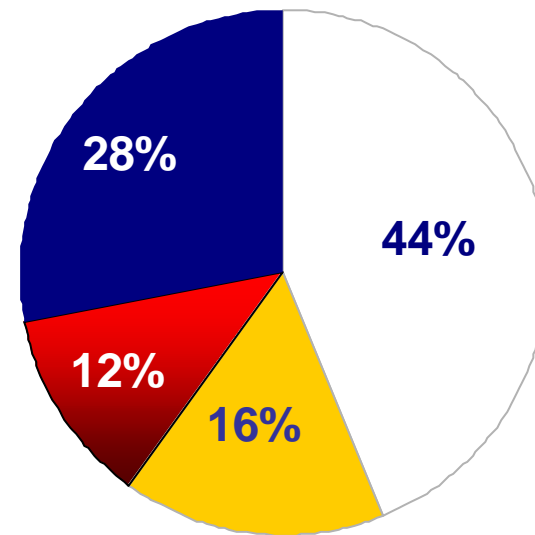
\*Includes the \$151 billion Social Security surplus and a \$4 billion surplus for the Postal Service

# Shift in Ownership of Debt Held by the Public

**1993**



**2004**



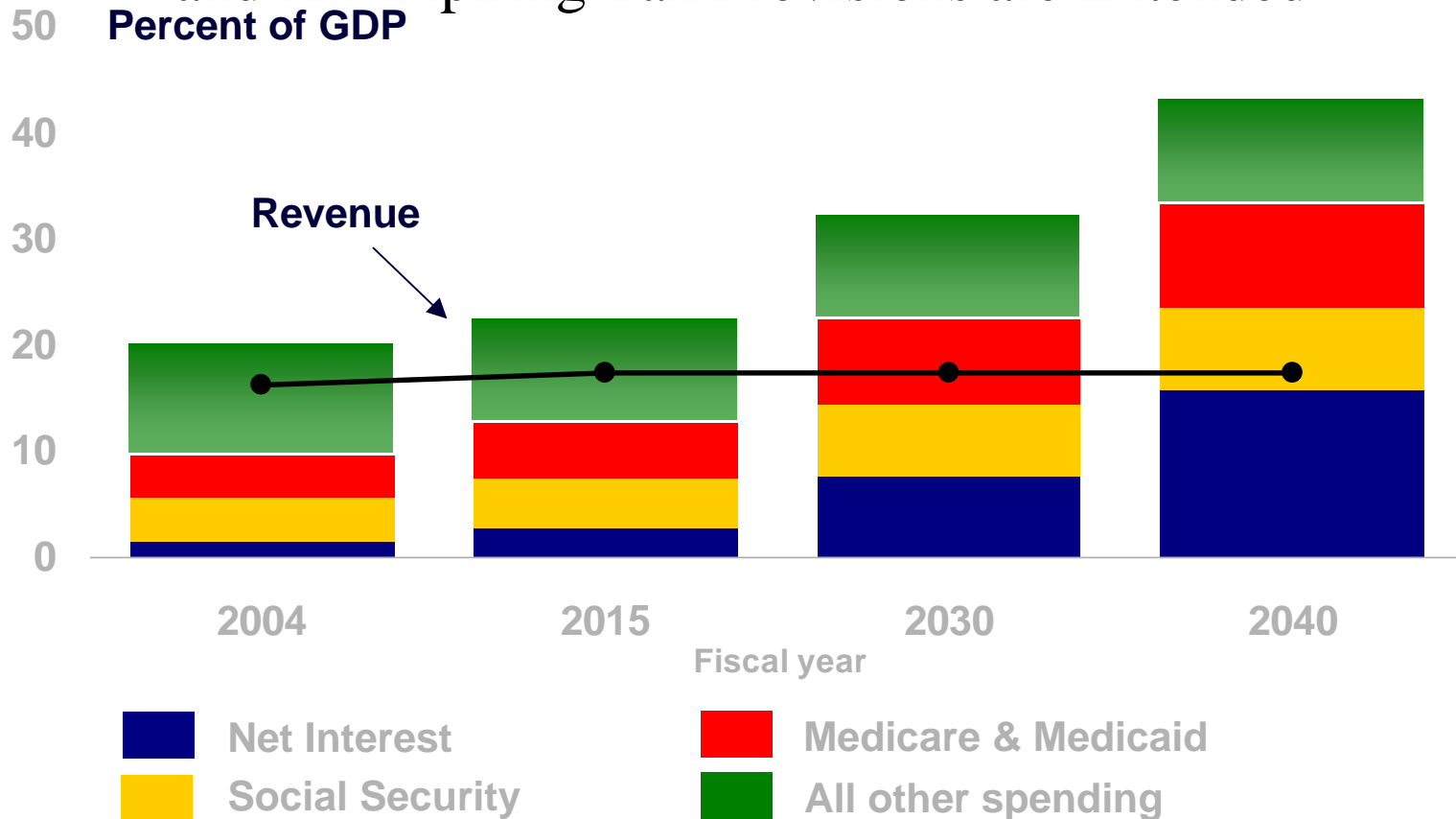
End of Fiscal Year



Source: Department of the Treasury.

# Composition of Spending as a Share of GDP

Assuming Discretionary Spending Grows with GDP after 2005  
and All Expiring Tax Provisions are Extended



Notes: Although expiring tax provisions are extended, revenue as a share of GDP increases through 2015 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2015, revenue as a share of GDP is held constant.

Source: GAO's March 2005 analysis.



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## WHY SHOULD YOU CARE!

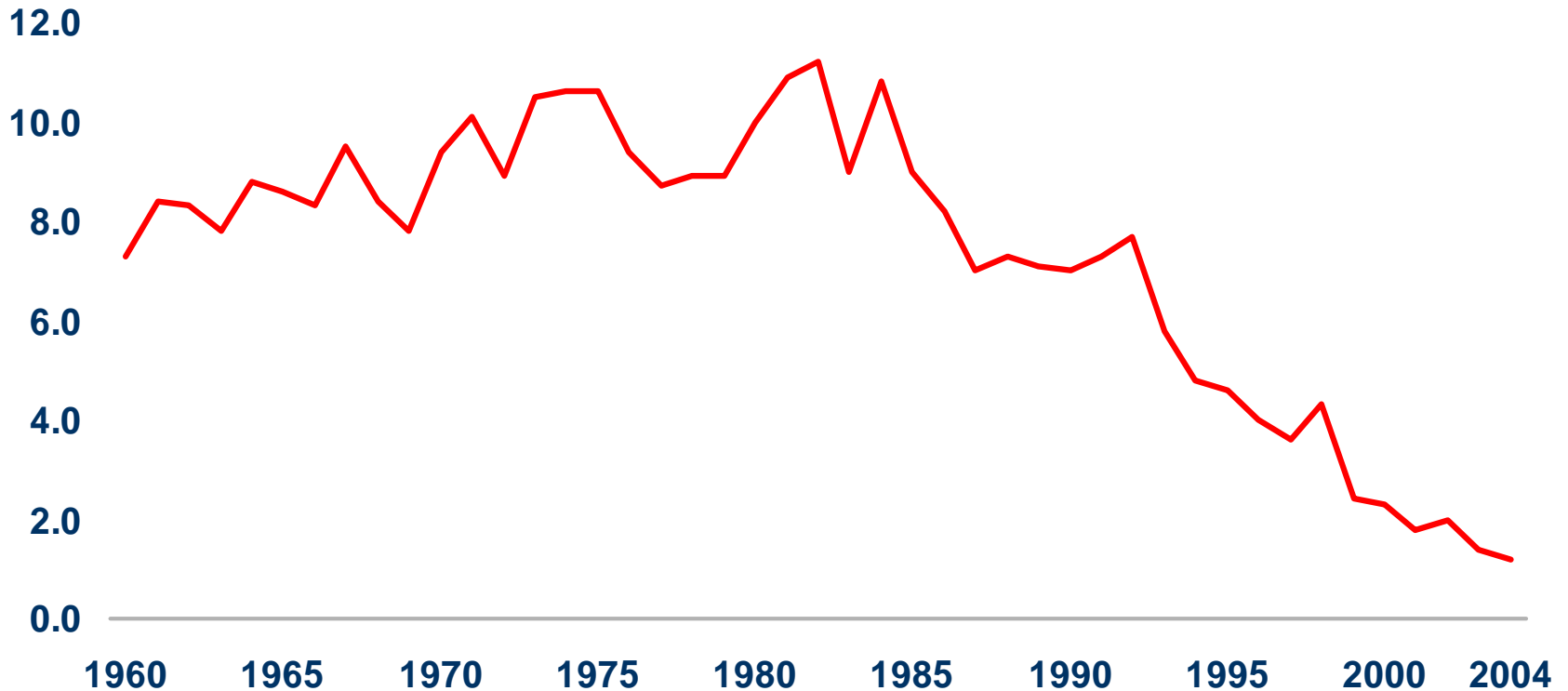


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# Personal Saving Rate Has Declined

Percent of disposable personal income

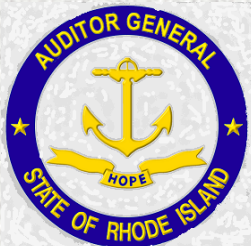


Source: Bureau of Economic Analysis, Department of Commerce.

# Procrastination

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- There are times when holding back can pay off
- **THIS IS NOT ONE OF THEM**
- We need to be Advocates for Future Financial Security
- We need to start debate now and address issue



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## Will We Be Responsible Or Irresponsible



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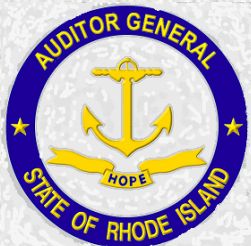
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# State and Local Issues

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- S - Tobacco Funds
- S - \$163 million deficit forecasted for FY 2006
- L – Cranston – (Unfunded Pension – \$230 million, \$12 million in fund desire to use fix structural problem, several funds with deficits)
- L – Johnston – \$20 Million Deficit/\$40 Million Budget, Water Fund
- F & L – Post Retirement Benefits



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# State and Local Issues

- S – RIPEC Study Medicaid Report
- FY 2006 \$1.8 Billion on Medicaid
- 30% of total operating budget – FY 2000 25.2%
- Prescription drug costs for Medicaid recipients increased from FY 2000 - \$70.3 million to FY 2006 154.5 million (budget)
- 17.4% of state population on Medicaid
- Forecast Medicaid spending projected to grow at average annual rate of 8.2% for rest of decade.

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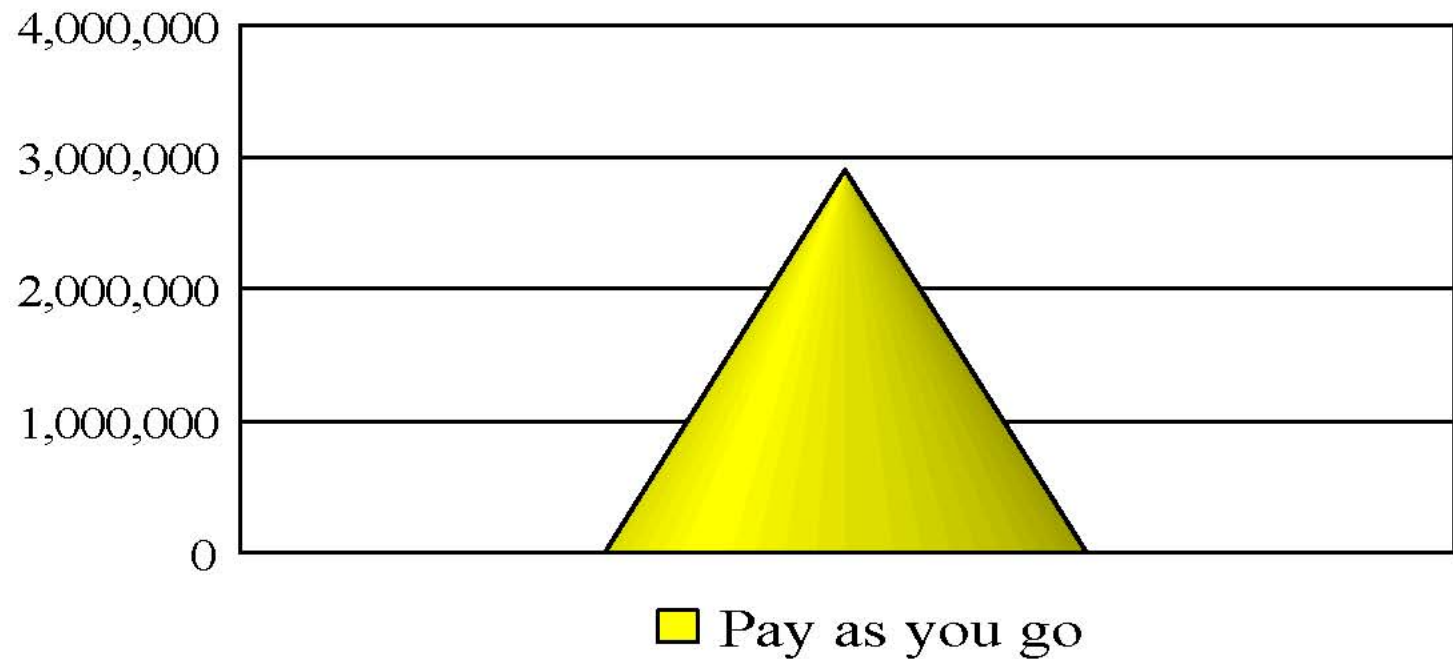
## Post Retirement Benefits Other Than Pensions



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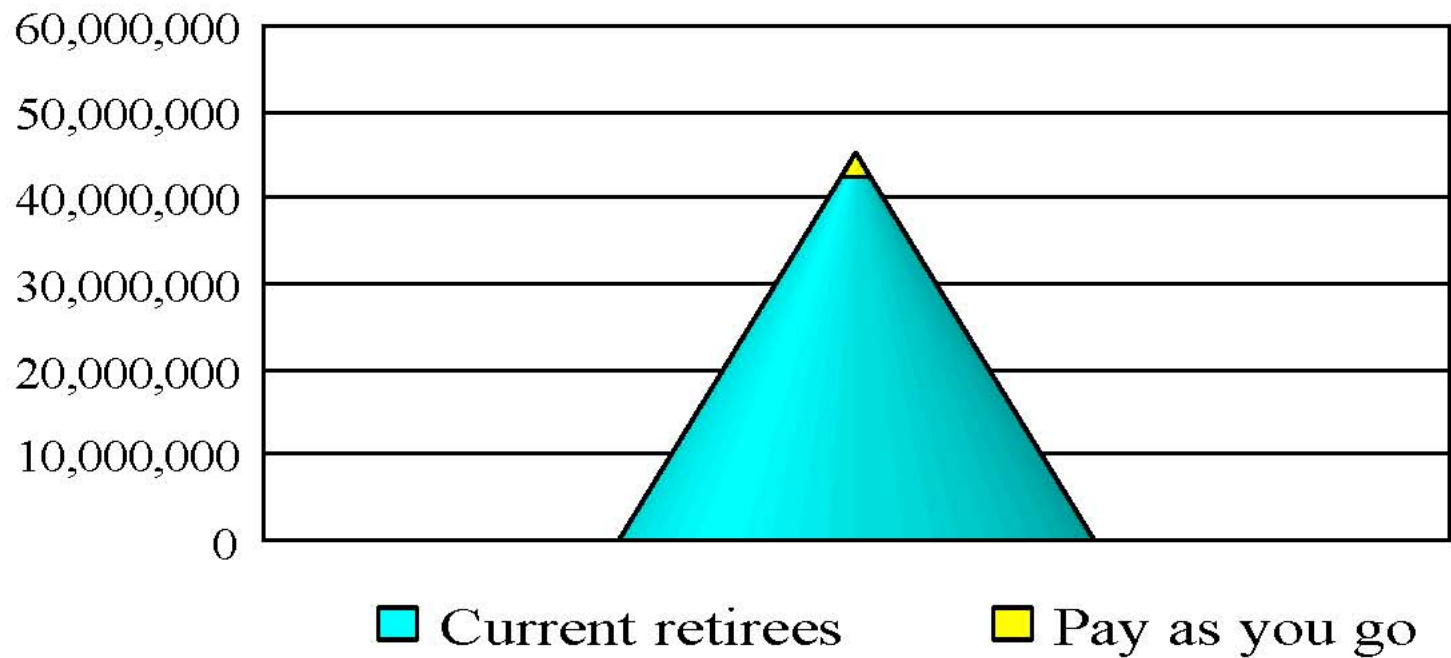
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## OPEB - The Tip of the Iceberg

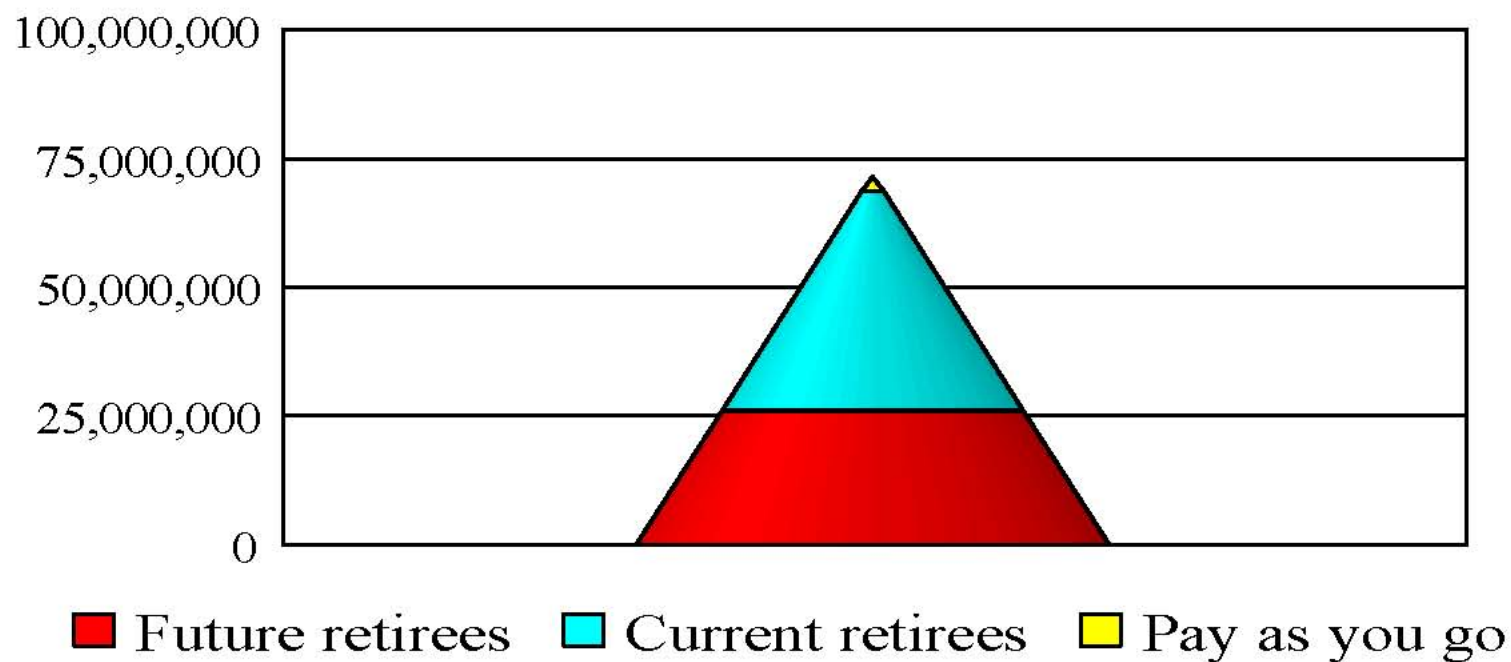




## OPEB - The Tip of the Iceberg



## OPEB - The Tip of the Iceberg



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- Saying NO as a CPA
- My Parents – (LUXURY/NECESSITY)
- David Spade/Capitol One



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# The Tipping Point – Malcolm Gladwell

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- **The Tipping Point is that magic moment when an idea, trend, or social behavior crosses a threshold, tips, and spreads like wildfire**



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# The Tipping Point – Malcolm Gladwell

- **Connectors**
- **Mavens**
- **Salespeople**
- **Paul Revere / William Dawes**



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# Long Term Fiscal Challenges – F/S/L

- **Compile list of challenges**
- **Develop white paper**
- **Develop power point presentation**
- **Develop speech**
- **Spread an educational program**



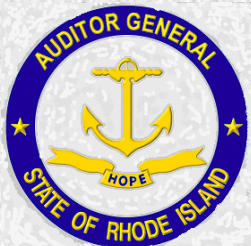
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# Keys to Success

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- Develop National Non Partisan Coalition to disclose the extent, direction, and projected impact of federal deficit
- State and Local involvement
- Identify who holds federal debt
- Discuss with FASAB and GASB about additional financial disclosures
- Establish a comprehensive collection of contemporary and historical writings on federal debt
- Compare current outcomes with past published historical claims, assertions, and assumptions ( Accountability).  
Publish a critique.



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# Foreign Holders Risk Factors – Ed Mazur - GASB

Foreign Holdings (billions) of US Treasury Securities, January 2005:

Japan	\$701.6 (36%)
Mainland China	194.5 (10%)
United Kingdom	163.0 (8%)
Caribbean Bank Centers	92.5 (5%)
South Korea	67.7 (3%)
OPEC Countries	64.7
Others	<u>768.5</u>
Total	\$1960.0



# Develop Partnerships

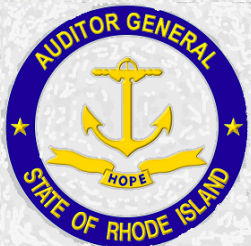
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- Governmental Professional Org. ( NASACT, GFOA, NALGA, Etc.)
- AICPA
- Financial Planners
- Economists
- General Public
- Media
- Elected Officials ( understanding political risks)

**Cause the “Tipping Point”**

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# Challenge for All

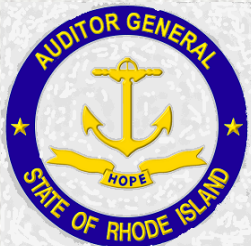
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- Encourage Debate
- More Resolutions by Various Organizations
- Engage Colleges and Universities
- Speaking Engagements
- Write Editorials
- Include information in other presentations
- Encourage reporting of all liabilities on Financial Statements
- Look at budgeting at all levels (incremental change/sunset)

Look at present value of future cash flows in decision proc.

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# Risks of Speaking Truth to Power

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## Personal Attacks and Political Retribution



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# Financial Literacy Program

## •Target Audience

- FINANCE DIRECTORS AND STAFF
- ELECTED OFFICIALS
- MEDIA
- PUBLIC



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# Elected Officials

- Certificate Program
  - Budgeting
  - Budget to Actual
  - Bonding
  - Pensions
  - Internal Controls
  - Accountability
  - Audits



Long Term Fiscal Challenges

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# Media

- Bonding
- Budgeting
- Budget to Actual
- Pensions
- Internal Controls
- Accountability
- Audits
- Long Term Fiscal Challenges



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Bonding  
Budgeting  
Budget to Actual  
Pensions  
Internal Controls  
Accountability  
Audits  
Long Term Fiscal Challenges





# Other Finance Topics

- Medicaid Funding
- Tax Collection Rate
- Pensions/Actuary Reports
- Rating Agencies
- Bond Issues
- School Funding
- Financial Review Boards
- Audit Committees
- COLAs/pension/OPEB



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# Oversight/Accountability

- Accountability, Accountability, Accountability
- Performance Audits
- Agreed upon procedure audits
- Financial Statement Audits
- Audit Committees
- Long Term Fiscal Challenges
- Goals and objectives tied to funding
- Public Hearings to address audit findings



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# AICPA 360 degrees of Financial Literacy

- **Life cycle financial issues**
- **Grassroots effort**
- **Great link for us to get involved**



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# Advice for using my presentation

- **Audience misunderstands  
Cash/Accrual**
- **Cumulative Deficits and Accumulated  
Deficits**
- **Help Audience to get their fiscal house  
in order**



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# Conclusion

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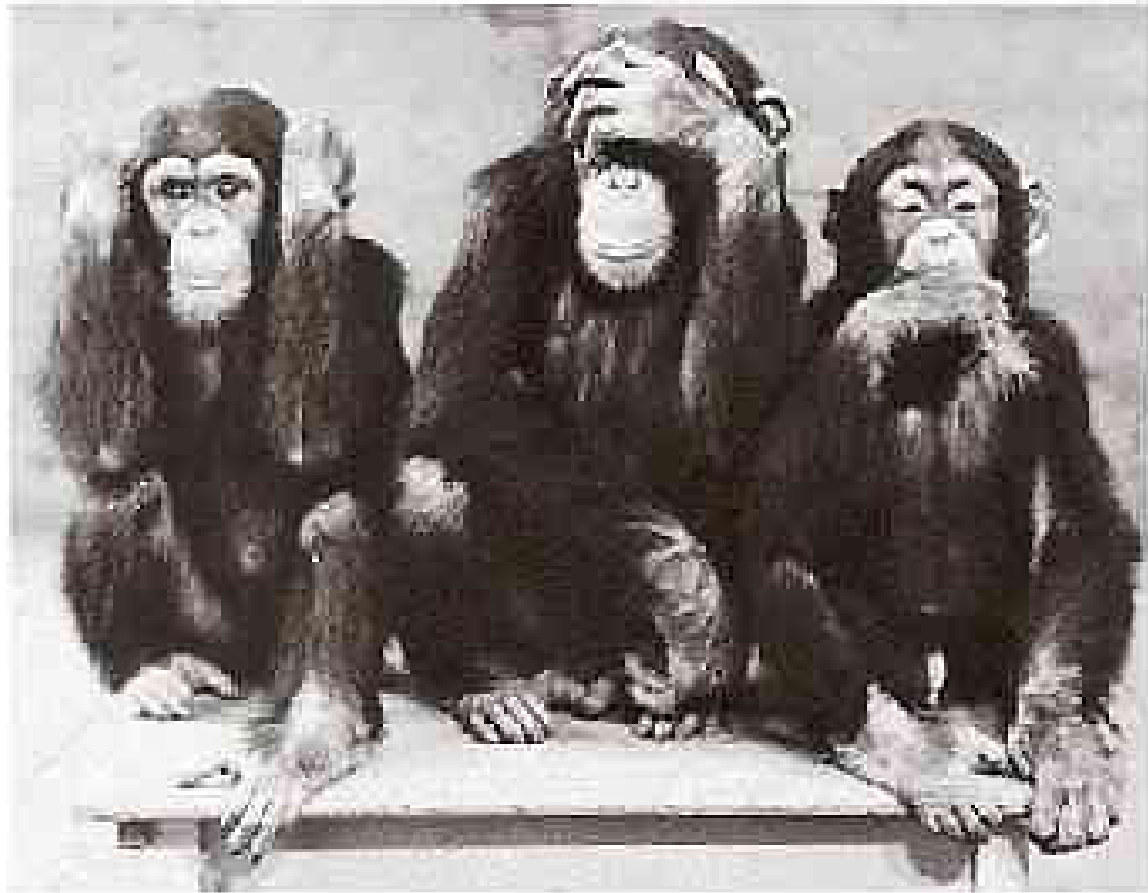
**THOUGHTS FOR YOUR CHECK  
OUT TODAY OR TOMORROW!**



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# Contact Information

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